



Independent Research

September 2005

SAITeysMcMahon Commercial Office Fund

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Commercial Office Fund

Summary

Offer Overview

The Commercial Office Fund is an open-ended unlisted trust that is initially seeking to raise \$51.75 million to finance the acquisition of the initial portfolio of three properties. Two of the properties are located in the Brisbane Central Business District (CBD) and the third in the Melbourne CBD. Funds raised in excess of \$51.75 million will be used to make further property acquisitions.

Evaluation Summary

The Commercial Office Fund's rating is assisted by the forecast stable income returns, the high depreciation benefits associated with the Melbourne property and a necessary programme of high ongoing capital expenditure that has tax benefits for investors. The Initial Portfolio is characterised by tenants of good covenant, with approximately 95% of the net income derived from government tenants and from two well-known private companies, Sinclair Knight Merz (SKM) and Kings Parking. The debt has been fixed for five years, mitigating interest rate risk. The gearing ratio of 63.0% of total assets is above the average of 54% for property funds examined recently by PIR. The main risks to this investment relate to short-term lease expiries in the two Brisbane properties (with the major tenants expected to renew their leases) and the exposure of approximately 60% of the Fund's initial net income to a lease expiry in 2010 in the Melbourne property. The impact of these risks should be reduced as the Fund acquires additional properties.

Management

SAITeysMcMahon Property Limited (SAITeysMcMahon), the Responsible Entity (RE) is a fund manager specialising in property and has a track record of managing both traditional and non-traditional property assets including office, retail, industrial, healthcare, childcare and agricultural properties. The SAITeysMcMahon group has assets under management in excess of \$1.2 billion.

Major Considerations

- ▲ An Initial Portfolio of office buildings fully leased with 100% tax advantaged income for the first two years.
- ▲ Good tenant covenant, with approximately 95% of Trust income derived from leases to government and two well-known private companies.
- ◀ Risk of vacancy on lease expiry in 2010 affects 60% of the initial net income, however proposed additional acquisitions expected to reduce this exposure.
- ▼ Reduction in lease expiry and cyclical office market risks dependent on the RE's management skills and its capacity to diversify the portfolio through future acquisitions.

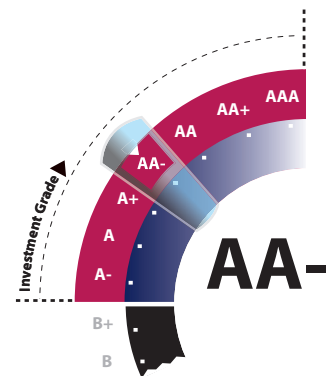
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Overall Investment Rating

Ratings vary with investor profile and option – refer Page 2.



Scheme Details

Commercial Office Fund	
ARSN 115 845 871	PDS dated 28 September 2005
Fund type	Unlisted Trust
Duration of investment	Open Ended
Unit price	\$1.00
Minimum investment	\$10,000
Distribution frequency	Quarterly
Liquidity	Low
Adviser Commissions	Up to 4%
Responsible Entity (Manager)	
SAITeysMcMahon Property Limited (ABN 90 006 387 435)	
Custodian	
Sandhurst Trustees Limited (ABN 16 004 030 737)	

Investment Profile

Number of properties	3		
Property locations	VIC, QLD		
Property sector	Office		
Future borrowing commitments	\$12.0m		
Gearing ratio (% of Total Assets)	63.0%		
Gearing ratio (% of Purchase Price)	70.0%		
Purchase price: total funds	90.0%		
Equity sought	\$51.75m	Property Price	\$127.0m
Rent in Advance	\$0.46m	Related costs	\$14.11m
Debt	\$88.90m	Total funds	\$141.11m
Total assets	\$141.11m		

Returns forecast by the Responsible Entity

Year end 30 June	2006	2007
Income return	8.20%	8.40%
Tax Advantaged	100%	100%

Conclusion

Qualitative Criteria	Star Ratings Assessment (0 – 5)				
Quality of assets	★	★	★		
Strength of relative property markets	★	★	★	↓	
Quality of income stream	★	★	★	↓	
Potential upside for vehicle	★	★	★	↓	
Diversification	★	★	↓		
Investor's initial value	★	★	★	↓	
Level of fees	★	★			
Capital structure and debt management	★	★	★		
Quality of disclosure	★	★	★		
Track record and capacity of Management	★	★	★	★	

Table i

This offer represents an opportunity to invest in an unlisted trust specialising in investments in the office sector. Most Australian office markets are experiencing falling vacancy rates and solid take-up rates in the wake of strong white-collar employment growth over recent years.

Two of the properties in the Initial Portfolio are located in the Brisbane CBD, which had a July 2005 vacancy rate of 3.9%, according to the Property Council of Australia (PCA). PIR is advised that recent discussions with the major tenants in these buildings (Queensland Police and SKM) suggest that they will renew their leases. This tends to reduce the Fund's vacancy risk in these Brisbane properties, which are subject to lease expiries in 2005-06 and 2006-07 for approximately 37% of their net income.

PIR Investment Ratings by investor profile*				
		Investor's risk tolerance		
		High	Average	Low
Tax rate	48.5%	A+	A+	A+
	31.5%	AA-	AA-	A+
	15.0%	AA-	AA-	AA-
<p>PIR's investment ratings are derived directly from estimates of after-tax IRRs adjusted for risk. Because this system determines a rating for specific tax rates and levels of risk tolerance, it recognises that investors have different attitudes. For an investor profile, it also enables direct and valid comparison with any other offer rated on the same basis for the same specific profile. The investment grade ratings range is: A-, A, A+, AA-, AA, AA+, AAA.</p> <p>* For further explanation refer to the back page of this report or visit www.pir.com.au/investors</p>				

Table ii

The Melbourne property, 637 Flinders Street, forms part of the World Trade Centre and is fully occupied until 2010 by the Victorian Police. This covenant represents approximately 60% of the Fund's initial net income. The Melbourne CBD office market has experienced strong take-up levels in recent years and the PCA's July 2005 vacancy fell to 7.7%. However new supply in the Melbourne CBD and adjoining Docklands precinct is projected to increase by over 250,000m² over the period to late 2007. Although the Victorian Police have occupied the property for ten years, there is no guarantee that the lease will be renewed. The property is expected to require substantial refurbishment in the medium term.

Since this is an unlisted trust, the RE is proposing to acquire additional office properties. This strategy is expected to reduce the Fund's exposure to vacancy risk over time, and will result in the Melbourne property representing a lower proportion of the Fund's total net income.

The additional office properties are proposed to be acquired throughout Australia's capital cities and regional centres, with up to 15% of the gross assets potentially located offshore. The RE has undertaken to ensure that currency risks are hedged (if this is considered to benefit investors). The enhanced geographical and tenancy diversification of the Fund should also assist in reducing the Fund's exposure to cyclical movements in the office market.

Most of the leases in the Brisbane properties are subject of annual reviews in line with the Consumer Price Index (CPI) or fixed increases of 3% to 4%. The Victorian Police leases specify market reviews every two years with a ratcheted increase of 2.5% per annum. The current rents for the Brisbane properties are somewhat below the valuers' assessed market rents, so that short-term lease expiries may provide an opportunity to increase rents. The Melbourne property is over-rented, with an expected reversion to market rent in 2010.

The Fund is projected to offer investors a high tax advantaged component of 100% over several years. This is partly attributable to high depreciation benefits associated with 637 Flinders Street, Melbourne. The RE has made allowance for significant ongoing capital expenditure and lease incentives across the Initial Portfolio, particularly for the Melbourne property. Expenditure in excess of \$12 million over six years is to be funded from additional debt. The RE's and PIR's financial forecasts take additional borrowing into account.

The PDS indicates that the Fund's gearing ratio is expected to vary over time as new acquisitions are made, with a maximum Loan to Value Ratio (LVR) of 85% of the value of new acquisitions, reducing to the targeted ratio of 65% to 70% LVR as new application money is received. The Initial Portfolio has already been acquired by the Fund, which will commence paying distributions from the December quarter 2005. The acquisition has been facilitated partly by equity of \$42.3 million subscribed by the RE's Diversified Property Fund (DPF) and partly by

debt financing. The equity raised under this offer will be used to reduce the gearing ratio to the targeted 70% of the purchase price of the properties and to fund the acquisition of new properties. This gearing ratio is equivalent to 63.0% of total assets of the Fund and is higher than the average for unlisted property funds. However it is not unusual for unlisted trusts to have LVRs of 65% to 70%. The average interest rate for the Initial Portfolio has been fixed for five years at 6.67%.

For most purposes investors should regard the Fund as an investment with low liquidity. However the RE has undertaken to make withdrawal offers twice a year equal to 5.0% per annum of the net value of the Fund. Provision has also been made for reinvestment of distributions. These facilities should provide investors with some flexibility in the future management of their investment in this Fund, although this facility shouldn't be relied upon as a guarantee of liquidity.

In summary this is an unlisted trust specialising in the office sector. The Initial Portfolio is fully leased to tenants with a solid covenant. In the environment of firming property yields experienced over recent years, the RE's forecast initial return of 8.20% is reasonable. The 100% tax advantaged component is expected to be attractive to investors. Risks associated with interest rate movements have been mitigated. Investors are dependent upon the expertise of an experienced manager for reduction of vacancy risk, which is intended to be partly addressed through future acquisitions diversifying the portfolio.

Key Assessment Issues

For prospective investors in the Commercial Office Fund, key assessment issues include:

- The open-ended nature of the Fund which permits further diversification of the Initial Portfolio through additional acquisitions, with up to 15% of assets potentially located offshore. Future performance of the Fund will depend upon the nature of these acquisitions.
- The forecast stable income returns and high tax advantaged component of 100% for several years.
- The short to medium-term outlook for Australia's office sector, which has been experiencing falling vacancy rates, influenced by strong growth in white-collar employment. High construction costs may contribute to further shortages in some locations by reducing the likelihood of future additional supply.
- Reasonable expectation for capital appreciation of the Initial Portfolio, based on the forecast performance of the Brisbane and Melbourne office sub markets and opportunities presented by short-term lease expiries in the Brisbane properties.
- Vacancy risk highlighted by the lease expiry in 2010 of the single-tenanted Melbourne property which represents 56% of the assets of the initial portfolio.
- The need for expenditure on capital improvements and lease incentives across the Initial Portfolio, to be funded from debt. PIR has reviewed the independent technical due diligence reports for the three initial properties and it appears that the RE has made sufficient allowance for this expenditure in its financial forecasts.
- There is the possibility that investors will be exposed

This report does not form any part of any offer document

to some level of development risk, as all of the initial properties are older buildings that are expected to require ongoing refurbishment. The RE may also decide to extend or redevelop properties in the Fund.

- Alignment of the RE's interests with those of investors through the participation of the DPF as a

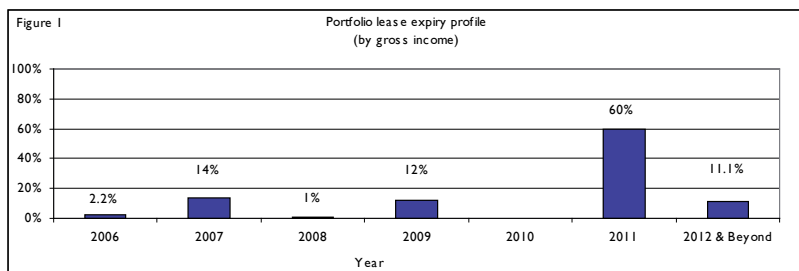
50% equity partner and the incentive of performance fees.

- The availability of six monthly withdrawal opportunities is expected to create some measure of flexibility for investors.

Income Returns

PIR has examined the financial projections of the RE based on the valuations and supporting evidence and is satisfied that based on forecasts as presented the project is able to generate sufficient returns to enable SAITEysMcMahon to distribute the proposed 8.20%, subject to best practice corporate governance being undertaken by the RE's Directors, staff and consultants.

The weighted average lease term remaining by income, as calculated by PIR, is 4.7 years, heavily influenced by 60% of the initial net income being derived from the single-tenanted Melbourne property, where the leases expire in July 2010.



Although the RE has published a two-year forecast in the PDS, PIR has had access to the RE's financial forecasts for the Initial Portfolio until 2012. Stable income returns from the initial portfolio are projected by the RE (at least up until 2011), partly as a result of the properties being fully leased, with a reasonable expectation of lease renewals or brief letting-up periods over the short to medium term in the Brisbane properties.

The fact that the RE is deferring some of its annual management fees over the first four years and using additional borrowings to fund costs such as letting-up allowances and leasing commissions has also contributed to the RE's forecast stable income returns. Interest rates are also fixed for the first five years.

PIR has undertaken a cash flow analysis for a standardised six-year period as part of the financial rating model process. For the expected case scenario, PIR's cash flow

assumes revenue in line with the lease provisions, with allowances for lease renewals, letting-up periods and incentives.

For 637 Flinders Street, PIR has assumed a 50% probability of tenant renewal in 2010, a reversionary rent in line with the valuer's Discounted Cash Flow (DCF) and that any incentives would be provided in the form of tenant fit out. PIR has assumed that letting-up allowances, leasing commissions and capital expenditure will be undertaken from additional borrowings, allowance for which has been made in the forecast interest payments. The LVR remains within the RE's target rate of 65% to 70%.

In order to maintain distributions equal to or in excess of 8.20% per annum, future acquisitions should ideally offer yields in excess of 8.0%. In the current property investment market, characterised by tightening yields, this may offer a challenge over the short to medium term.

This emphasises the need for the RE to use its skills in property selection, to negotiate advantageous buying terms and to manage the risks of ownership.

PIR's model process produces an expected Internal Rate of Return (IRR) of 9.09% after tax for investors with a marginal tax rate of 48.5% and 0% gearing by individual investors. This analysis assumes there is no change in the portfolio in the form of redevelopment, forced or other deleterious sale or expansion not assumed in the company's current forecasts during the six-year horizon.

PIR's analysis indicates that investors on a 15% marginal tax rate can potentially achieve a marginally higher IRR of 10.29% after tax. The corresponding expected after-tax IRR for taxpayers in the 31.5% bracket is 9.82%. There is only a small variation between the tax brackets due to the impact of the 100% tax-advantaged income and of the capital expenditure amounts influencing the cost base used in calculation of capital gains tax.

Financial forecasts and projections (PIR expected case)					
Year ended 30 June	2006	2007	2008	2009	2010
Net Property Income	11,509,381	11,383,010	11,869,235	11,767,565	12,287,536
Other income	-	-	-	-	-
Total Income	11,509,381	11,383,010	11,869,235	11,767,565	12,287,536
RE fees	911,225	1,069,569	1,173,008	1,333,461	1,455,208
Property related costs	5,929,630	5,966,233	6,067,183	6,120,500	6,236,182
Other Expenses	127,000	130,175	133,429	136,765	140,184
Total Expenses	6,967,855	7,165,977	7,373,620	7,590,726	7,831,574
Net Operating Income	4,541,526	4,217,033	4,495,614	4,176,839	4,455,962
Available For Distribution	4,243,500	4,347,000	4,398,750	4,273,703	4,455,962
Equity Invested	51,750,000	51,750,000	51,750,000	51,750,000	51,750,000
Return On Equity	8.20%	8.40%	8.50%	8.26%	8.61%
Tax Advantage	100.0%	100.0%	100.0%	100.0%	100.0%
After-tax Distribution					
48.5 % Tax rate	8.20%	8.40%	8.50%	8.26%	8.61%
31.5 % Tax rate	8.20%	8.40%	8.50%	8.26%	8.61%
15 % Tax rate	8.20%	8.40%	8.50%	8.26%	8.61%

Table iii

Capital Returns

PIR's estimate of the Current Realisable Value of the Fund indicates that, excluding income distributions and the impact of taxation benefits, an overall growth rate of 1.6% per annum in the capital value of the property portfolio would be required for 100% equity to be returned to investors at the end of a standardised six-year investment period. PIR's cash flow analysis indicates that capital appreciation of 3.6% per annum may be achieved over a six-year period. Under the expected case scenario, PIR has adopted terminal capitalisation rates of 8.00% for each of the properties. The prospect for capital appreciation of the Initial Portfolio is enhanced by the low vacancy rates in the Brisbane market and the RE's proposed capital enhancement of the properties.

Current Realisable Value	Standardised 6 year term
Growth rate required to return \$1 at end of period:	1.6% p.a.

Table iv

The percentages in Table v 'Application and Sources of Funds' provide benchmarks and replace the former NTA calculation, the true meaning of which has dissolved with the increased application of accounting convention. For further analysis and benchmark comparisons of transaction and establishment costs, subscribers should visit www.pir.com.au.

Application of Funds	\$000	%	Source of Funds	\$000	%
Contract purchase price	\$127,000	90.0%	Equity	\$51,750	36.7%
Transaction costs	\$6,195	4.4%	Debt	\$88,900	63.0%
Initial payments to RE	\$6,557	4.7%	Net Rent in Advance	\$461	0.3%
Other offer/establishment costs	\$1,044	0.7%			
Cash/contingency	\$315	0.2%			
Total Funds Employed	\$141,111	100.00%	Total	\$141,111	100.00%

Table v

Debt

The RE has arranged three non-recourse loan facilities with the Bank of New Zealand Australia. Interest rate swap arrangements have been negotiated to provide a weighted average fixed interest rate of 6.67% for five years.

The loan facilities permit a gearing ratio of up to 85% of the value of the properties at the time of acquisition, to be reduced to a 65% to 70% LVR range as new application monies are received. The initial gearing ratio of 70% LVR is equivalent to 63.0% of total assets, which is above the average of 54% for unlisted trusts examined recently by PIR. However it is not unusual for unlisted trusts to have LVRs of 65% to 70%.

There is no guarantee that equally favourable interest rates will be available for future loan facilities negotiated by the RE to fund additional acquisitions or to refinance these loan facilities in 2010. PIR has made allowance for a variation in the interest rate for year six in the upside and downside scenarios of its rating model process.

The RE's financial forecasts indicate that up to \$12.0 million in additional borrowings will be made to fund various expenditure related to the Initial Portfolio. These borrowings are not sufficient to raise the LVR over 70%, assuming some capital appreciation of the properties (of the order of 3.6% per annum).

Taxation

Income tax: There are significant taxation benefits available to investors by way of a tax-advantaged component that represents a percentage of 'tax deferred' income. This tax-advantaged component is due to allowable deductions, such as building allowance and depreciation of the property, plant and equipment and certain establishment costs.

Australian investors can expect to receive an income stream that is tax advantaged to 100% for the first two years of the investment and for several years beyond (based on the RE's financial forecasts and assuming no change to the property portfolio).

Capital Gains Tax: Tax paid on accumulated tax deferrals as well as on increase in property value (net of sale costs). PIR understands that under current law the taxable income of the Fund will include any capital gains made on the sale of assets owned by the Fund. The cost base used in calculating such capital gain will be reduced by any amounts already claimed as a deduction.

The taxation implications of investing in the Fund may vary according to the investment structure adopted by investors and potential changes to the Taxation Act. **It is strongly recommended that investors seek/obtain professional and independent financial advice before choosing to purchase units in this or any investment property vehicle.**

Risk and Total Returns

PIR's assumptions for the upside and downside scenarios are intended to indicate a 'range of reasonable likelihood' for outcomes. PIR has had regard for the RE's financial forecasts, for the valuers' assumptions in respect of lease renewals, letting-up periods, rental growth and lease incentives and the technical due diligence consultants' recommendations in respect of capital expenditure.

Alternative assumptions (where warranted) are in accordance with the standard PIR methodology. Whilst no forecasting can be guaranteed to be correct, providing differing assumptions can create both positive and negative outcomes within the PIR framework.

Risk is measured by the deviation in returns from those generated by the expected case scenario. For the upside and downside scenarios, alternative assumptions have been employed in accordance with the standard PIR methodology. Table vi indicates a range of IRR's with results in downside and upside cases effectively being one standard deviation from expected figures.

Trust estimated after-tax IRRs	Downside	Expected	Upside
48.5%	5.48%	9.09%	12.67%
31.5%	5.61%	9.82%	13.75%
15%	5.65%	10.29%	14.44%

Table vi

Assumptions

PIR assumptions	Downside	Expected	Upside
Likelihood of lease renewal			
- Brisbane properties	50%	75%	95%
- 637 Flinders Street	25%	50%	75%
Letting-up period (months)			
- Brisbane properties	9	6	3
- 637 Flinders Street	18	12	0
Rental Growth p.a			
- Brisbane properties	2.50%	2.75%	3.50%
- 637 Flinders Street 2010-11 reversion	- 11.00%	- 9.00%	- 7.00%
Rental incentives – Brisbane properties	20%	15%	7%
Weighted average terminal capitalisation rate	8.50 %	8.00%	7.50%
Forecast portfolio rate of capital appreciation p.a.	2.3%	3.6%	5.3%
Capital expenditure (over six years)	\$16.2 million	\$10.1 million	\$4.9 million
Interest rate at end of five year period	7.17%	6.67%	6.42%

Table vii

Offer Structure

The Fund is an unlisted, open-ended fund structured as a unit trust with a Responsible Entity, constitution, compliance plan, custodian, and public offer for units achieved by way of Product Disclosure Statement. The prime responsibility of the Responsible Entity is to safeguard the interests of investors and to manage the Fund to ensure that it achieves its objectives. It is intended that the Fund will acquire further properties that meet the RE's investment criteria. The Fund allows for the participation of all types of Australian investors including superannuation funds. The RE has progressively settled the property portfolio since June 2005 and borrowed loan funds. Minimum subscriptions to the Fund are \$10,000 with further subscriptions from \$1,000.

The acquisition of the Initial Portfolio was facilitated partly by equity of \$42.3 million subscribed by the RE's DPF and partly by debt.

This offer is being exclusively marketed via the financial planning network of Discovery Investment Serviced Corporation Limited as sponsor. The custodian appointed to hold the assets of the Fund is Sandhurst Trustees Limited, a trustee company that has operated for over one hundred years.

The PDS indicates that distributions may be reinvested and that investors may increase their investment in the Fund at any time. As new units are issued in the future, there may be some dilution of the original unitholders' ownership in the Fund, unless they take these opportunities to increase their participation.

Liquidity and Exit Mechanism

The Commercial Office Fund has a Constitution that governs the rights of unit holders and the ongoing operation of the Fund. Under its Constitution the Fund has a maximum life expectancy of 80 years.

Investors should regard an investment in the Fund as illiquid and the RE will only satisfy a withdrawal request if the Fund is 'liquid' as that term is defined in the Corporations Act. The RE, however, intends to make withdrawal offers every six months for an amount, which does not exceed 5% per annum of the net asset value of the Fund.

The withdrawal price of a unit is expected to be 5% less than the issue price, this amount reflecting the Service Fee incorporated into the original unit price of \$1.00. This fee covers transaction costs. It is anticipated that withdrawal offers will be funded by the issue of new units, but should a property need to be sold to fund a withdrawal offer, the 5% fee could increase to take account of additional transaction costs associated with the disposal of the property.

Until 31 December 2006, the unit price will equal the issue price of \$1.00. After that it may vary as the underlying value of the Fund's assets changes over time. The unit price will be calculated by dividing the net value of the Fund's assets (less transaction costs and accrued income) by the number of issued units. Net asset value will usually be based on the most recent independent valuation of the properties, but may be determined by the RE. This disadvantage of using an ageing valuation for any unit redemption may be that the net asset value may not fully reflect the underlying value of the assets.

The withdrawal offers available on a six-monthly basis are expected to provide some flexibility for investors, but PIR still considers that the Fund offers a low level of liquidity since its underlying assets are properties (not securities).

The regular withdrawal offers proposed by the RE are in addition to any partial withdrawal offers that may be made should any of the significant assets of the Fund be sold. Under the Fund's Constitution, SAITeysMcMahon as responsible entity for the DPF has first right of refusal to acquire each of the properties of this Fund, prior to offering them on the open market. The RE has advised PIR that its current intention is to acquire additional properties and to hold the Initial Portfolio for the foreseeable future.

Commercial office markets tend to be cyclical, so that it is possible that the RE's current strategy may alter. Should the RE decide that it is in the best interests of investors to dispose of the portfolio, there are various options available, including the acquisition of the properties by SAITeysMcMahon or one of its associated companies, disposal of the properties on the open market or by listing of the units on a secondary market.

The Constitution indicates that the RE proposes to review the portfolio in 2013, with the option of disposing of one or more of the properties. The RE has informed PIR that a supplementary constitution is currently being drafted to remove this section of the original constitution. Investors should therefore assume that the main exit strategy available to them is through acceptance of the RE's proposed withdrawal offers.

Fees

The Responsible Entity and others are entitled to several fees, which have been included in the financial forecasts. The principal fees are outlined below:

- The RE is entitled to an upfront Service Fee of 5% of the application money paid to acquire units in the Fund, from which commissions will be paid to advisers (including up to 2% payable to Discovery Investment Services as sponsor). This Service Fee is expected to cover the transaction costs associated with the proposed withdrawal offers in most instances. (Refer to LIQUIDITY AND EXIT MECHANISM above).
- A upfront acquisition fee of 3% of the acquisition price of any property purchased. Under the Constitution, the RE is entitled to an acquisition fee of up to 5% (See below for further details on scheme Constitution regarding fees).
- The RE is entitled to an annual management fee of 1.0% of the gross value of the Fund's assets. The RE has indicated that it will defer this fee over the first four years (paying 0.70% in year one, 0.80% in year two, 0.85% in year three and 0.95% in year four). The deferred fees are to be recouped if SAITeysMcMahon is terminated as RE of the Fund or on a pro-rata basis

on disposal of any of the properties. At the time the deferred fees are recouped, they will be calculated as a percentage of the value of the assets at the time the fee is paid.

- The RE is entitled to a performance fee of 2% of the gross sale price of a property on disposal (less selling expenses), provided the net sale price exceeds the purchase price plus costs of acquisition and capital improvements. Should the net sale price exceed this amount by 50% or more, an additional 2% fee would be paid. These fees would also be paid if the Fund is merged with or acquired by another managed investment scheme.
- Should SAITeysMcMahon be removed as Responsible Entity for the Fund, a removal fee of 3% of the gross assets would be paid to the RE. Under the Constitution the RE is entitled to a removal fee of up to 4% (see below for further details on scheme constitution regarding fees).
- The RE is entitled to be reimbursed for the ongoing administration expenses of the Fund. These costs include an ongoing fee of up to 0.05% payable to the Custodian, Sandhurst Trustees Limited, for its role in holding the assets of the Fund.

The total of the Service Fee and the acquisition fee represents an upfront payment to SAITeysMcMahon of

5.0% of the purchase price of the initial properties which is broadly in line with current PIR industry averages of 4.9%. The ongoing Management Expense Ratio (MER), made up of the RE's annual fee plus expense recoveries, is not expected to exceed 1.0% of the average gross assets in the first year, but the RE has indicated it would rise to 1.3% as the deferred management fee reduces to zero in year five. This is high compared with the average MER of 0.6% for funds examined recently by PIR.

The performance fee generally aligns the interests of the RE with that of investors and provides a strong incentive for the RE to maximise the performance of the Fund. These are generally in line with industry practice.

The RE has indicated that the usual withdrawal fee will be nil (since the transaction costs are to be funded from the Service Fee). However the current Constitution permits a withdrawal fee of 2% of the withdrawal price of the units.

The RE has informed PIR that the existing scheme constitution is currently being amended via a supplementary constitution which will ensure that the upfront acquisition fee and removal of entity fees will each be capped at 3%. The supplementary Constitution will also remove the current withdrawal fee of 2%.

Capacity of Manager

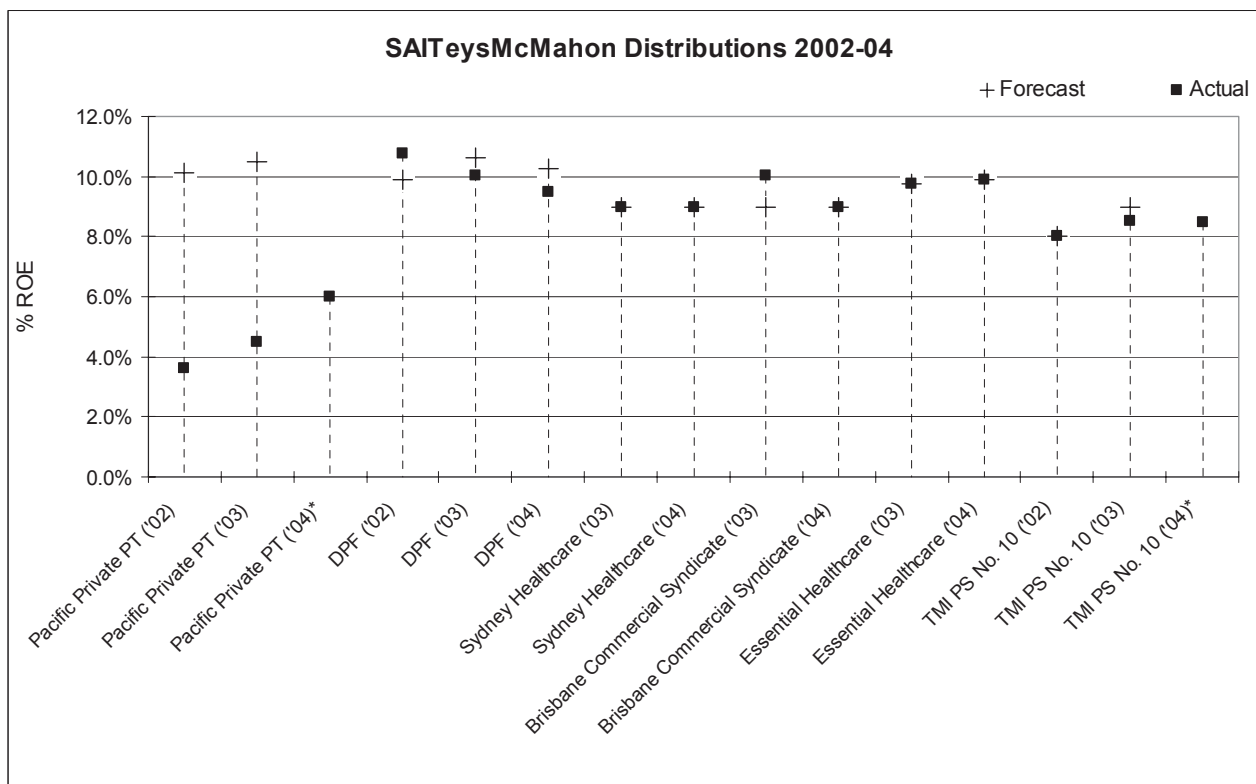
The RE of the Fund is SAITeysMcMahon Property Limited. SAITeysMcMahon specialises in structuring commercial property trusts and funds. As at 30 June 2005, SAITeysMcMahon managed assets in excess of \$1.2 billion. Apart from the Pacific Private Property Trust, the RE's syndicates and unlisted trusts are generally performing in line with expectations.

PIR has undertaken a compliance review of the RE on 29 November 2004 and met with Matt Kilbride General Counsel, Head of Compliance and Tim Killian Portfolio Manager, Property (formerly Compliance Manager for SAITeysMcMahon).

Compliance is reasonably well managed at SAITeysMcMahon Property Limited. Matt Kilbride's appointment brings relevant experience and qualifications to the role of Head of Compliance and a recent staff appointment has added resources. Tim Killian's experience as Compliance Manager for three years also adds to compliance awareness in operations.

SAITeysMcMahon is supported by an adequate compliance management framework, evidenced by the company having never been issued with a qualified compliance plan audit opinion. A structured verification review procedure has been implemented by the Head of Compliance. Additional compliance staff have been recruited to further bolster the capability of the compliance function. The custodian – Sandhurst Trustees Limited is a long established trustee company, which is owned by the Bendigo Bank.

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Key management personnel are as follows:

Directors of the Responsible Entity

Grant Ross (Managing Director): Grant is the managing director of SAIteysMcMahon and sits on SAIteysMcMahon’s investment review committee. He holds a Master of Applied Finance (Melbourne University), Master of Enterprise Innovation (Swinburne University) and Bachelor of Science with Honours (Monash University).

Graham Brewer (Director): Graham is a director of SAIteysMcMahon. With over 27 years’ experience in the property investment industry, Graham has been actively involved in senior positions with public and private companies in the management of property investment portfolios. He sits on SAIteysMcMahon’s investment review committee and is a fellow of the Australian Property Institute, a registered valuer, and is a former councillor of the Victorian division of the Property Council of Australia.

Greg McMahon (Non-Executive Director): Greg is a non-executive director of SAIteysMcMahon and a partner of the law firm, McMahon Clarke Legal. He is recognised as one of Australia’s leading managed investment lawyers. He is a past president of the Australian Direct Property Investment Association. Greg holds a Bachelor of Laws with Honours, Bachelor of Commerce and Graduate Diploma of Applied Finance and Investment.

Directors of SAIteysMcMahon

Robert Appleby (Non-Executive Chairman): Bob is the chairman of SAIteysMcMahon. With over 40 years’ experience in the real estate industry, he has been a principal of his own real estate business for over 36 years. He holds a certificate in financial markets from the Securities Institute of Australia.

Peter Scully (Director): Peter is a director of SAIteysMcMahon and is the founder of the SAI Group. He has over 30 years’ experience as a financial strategist. He lectures for The Executive Connection (TEC) on personal lifestyle, financial planning and estate planning. He holds a Graduate Diploma in Business Administration from Swinburne University.

Judy MacMahon (Director): Judy is a director of SAIteysMcMahon, responsible for brand, marketing and investment distribution. In her role as head of distribution, Judy leads SAIteysMcMahon’s team of client relationship managers who assist private investors and the team responsible for third party distribution including institutions, financial planners and accountants. She has over 25 years’ experience in property, finance, venture capital and merchant and investment banking.

Matt Kilbride (General Counsel & Head of Compliance): Matt has over 16 years’ experience in legal and compliance roles both in major law firms such as Blake Dawson Waldron and within the financial services industry in entities such as Perpetual Funds Management, AMP Wholesale Investments, Invesco and Equity Trustees.

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His responsibilities within SAITeysMcMahon include management of the compliance function where he heads a team of four in performing this function. He holds a Bachelor of Laws, Bachelor of Economics and a Graduate Diploma of Company Secretarial Practice.

Property and Location Analysis

Australian office markets are experiencing falling vacancy rates and solid take-up levels in the wake of strong growth in white-collar employment. CBD markets have generally experienced the strongest recovery, reflecting a migration of tenants from suburban markets. The average CBD vacancy fell by 1.6 percentage points to 7.6% over the six months to July 2005, according to the PCA, while non-CBD vacancy fell by 0.6 percentage points to 9.7%. Only Sydney CBD still has a vacancy level over 10%.

The strongest net absorption for the six months to July 2005 was for Melbourne CBD (including the Docklands precinct), with 87,626 m² absorbed, taking the vacancy rate from 9.8% to 7.7%. This followed net absorption of 148,740 m² over the previous 12-month period. Demand has been driven by business confidence and the availability of quality space at moderate rents following a construction surge, which has seen 207,411 m² of new space completed in Melbourne CBD and Docklands since 2003. A further 254,545 m² is due for completion by late 2007, of which

70% is precommitted by various tenants including Ernst & Young, AXA, City of Melbourne and the State Government.

In Brisbane, both the CBD (3.9%) and Near City (4.4%) office markets are experiencing low vacancy levels. Unlike Melbourne, the amount of new space added this construction cycle has been relatively modest, with 56,100 m² of space in 2004 and 85,000 m² under construction for completion in 2005 and 2006 (75% precommitted). Demand from government and resource sector tenants has been driving take-up, with 63,500 m² of net absorption in Brisbane CBD during 2004, and a further 16,000 m² in the first half of 2005.

In the Brisbane CBD market, high construction costs and a shortage of suitable sites (since there has been so much residential development – 15 projects since 2000) may tend to delay the next construction cycle. This is expected to see further growth in rental rates, as vacancy levels remain relatively low over the next few years.

1. 40 Tank Street, Brisbane, QLD					
% of Portfolio	25%	Completion Date	1985, refurbished 1996		
Ownership	100%	Purchase Price	\$31,750,000		
Title	Freehold	Vacancy	nil		
Type	Office/retail	Gross Lettable Area	6,354 m ²		
Location	Brisbane CBD	Total Site Area	2,106 m ²		
Major Tenants	Lease Terms		% Area	% Rental	
Queensland Justice & Attorney General	5 years, expiring 30 Sept 2006 (1 x 5 year option)		34%	20%	
Queensland Police	5 years, expiring 31 March 2007 (2 x 5 year options)		33%	15%	
Kings Parking	10 years, expiring 31 August 2014 (1 x 10 year option)		-	48%	
Valuation Date	\$ Value	Valuer	Initial yield	Cap rate	\$/m²
25 February 2005	\$31,750,000	CB Richard Ellis	7.99%	8.25%	\$4,997/m ²

Table viii

- Located in the legal precinct in the western corridor of the Brisbane CBD. Nearby buildings include the Brisbane Transit Centre, Commonwealth Law Courts, Roma Street Magistrates Courts and the Queensland Police Department Headquarters.
- A well-presented eleven-storey building, with ground floor retail/office space, 266-bay public parking station on levels one to five and five storeys of upper

level office space. Refurbished in 1996, it is serviced by three passenger lifts and one secure passenger lift for the judges from a secure 19-bay parking area on level one. The building has a high parking ratio of one space per 22 m² of net lettable area (NLA).

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- The upper level office floors achieve views to the south-east towards the Brisbane River and offer column-free accommodation, with floor plates over 1,000 m².
- Fully occupied, with the office rents reported to be below market by the valuer, CB Richard Ellis. Short-term lease expiries relating to 50% of current net income provide an opportunity for rental growth.
- Most tenancies subject to annual reviews in line with the CPI or fixed annual increases of 3.5% or 4%.
- Western corridor characterised by mix of uses, including secondary retailing, office buildings, hotels and apartment buildings. Access to Roma Street Parklands is available from George Street at the northern end of Tank Street. A dilapidated heritage building and vacant adjoining site are located opposite 40 Tank Street and are for sale, with potential for development as an office, retail, residential or mixed-use complex. To the rear of 40 Tank Street is another vacant site, currently used as an open-air car park.
- Availability of potential development sites near 40 Tank Street may represent a threat to lease renewals if a new office development cycle provides alternative new space suited to the sitting government tenants. However the building has features specifically designed to accommodate the Queensland Justice and Attorney General's Department (the secure car park and lift) and Queensland Police recently leased ground floor space for terms that would extend its presence beyond some of their other lease expiry dates (they have five separate leases expiring between 2006 and 2009, with options extending as far as 2017).
- PIR has reviewed a copy of a technical due diligence report for 40 Tank Street, prepared in March 2005 by GN Constructions Pty Ltd. SAITeysMcMahon's financial forecasts to 2012 indicate that the RE appears to have made sufficient provision in various allowance for the capital expenditure items recommended in this report (approximately \$1.3 million over the next decade).

2. The Victorian Police Centre, 637 Flinders Street, Melbourne, VIC					
% of Portfolio	56%	Completion Date	1983, refurbished 1995		
Ownership	100%	Purchase Price	\$71,000,000		
Title	Freehold	Vacancy	nil		
Type	Office	Gross Lettable Area	23,050 m ²		
Location	Melbourne CBD	Total Site Area	4,209 m ²		
Major Tenants		Lease Terms		% Area	% Rental
Victorian Police – Buildings C & E		17 years, expiring 31 July, 2010		86%	88%
Victorian Police – Building A		16 years & 1 month, expiring 31 July, 2010		14%	12%
Valuation Date	\$ Value	Valuer	Initial yield	Cap rate	\$/m²
8 August 2005	\$71,000,000	m3property	9.85%	7.75%	\$3,080/m ²

Table ix

- The World Trade Centre has a total NLA of approximately 66,000 m² and 660 parking spaces and is located north of Siddeley Street inland from the Yarra River. To the south-west of the traditional Melbourne CBD grid, offering views to the CBD and to the adjoining Docklands precinct to the north-west, on the other side of the Citylink connection to the Westgate Freeway. The Trust has purchased two of the buildings contained in the Centre, making up approximately 35% of the total.
- Two inter-connected office buildings with one building providing five levels of office accommodation whilst the other building has ten levels of office accommodation. The podium levels offer floor plates from 2,816 m² to 3,680 m², while the tower building has smaller areas of 585 m² to 677 m². Includes three levels of above ground parking for 340 vehicles, reflecting a high parking ratio of one space per 68 m² of NLA.
- The concourse level connects these buildings with the balance of the World Trade Centre via two pedestrian bridges, and accommodates a gymnasium, sauna and change rooms.
- Extensively refurbished in 1995 for the Victorian Police, the building is understood to suit this tenant partly because of its high parking provision and its high level of accessibility to Melbourne's freeway systems. Spencer Street Station, currently

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being redeveloped for completion in early 2006, is approximately 200 metres to the north, and a tram stop is outside of the building in Flinders Street.

- The World Trade Centre's ownership is to be split between this Fund and Asset 1, the purchaser of the balance of the complex. The World Trade Centre Land Management Deed governs the inter-relationship between the two parts of the complex, addressing issues related to shared services and cost sharing. Asset 1's part of the World Trade Centre is proposed to be upgraded, with potential expenditure of \$30 million. PIR is advised that the RE is undertaking negotiations with Asset 1 that could result in reduced outgoings following the expiry of the Victorian Police lease in 2010.
- The passing net income for the office component at \$256/m² is 35% above market income assessed by the valuer, m3property. This has contributed to the high initial yield, creating a steady cash flow for the next four years. The Fund also has the benefit of market reviews every two years, with minimum rental increases of 2.5% per annum.
- The high tax-advantaged income of the Fund of 100% per annum for several years is partly the result of depreciation benefits associated with this complex.
- The complex presents as dated and is expected to require substantial refurbishment on expiry of the current lease. PIR has reviewed the Executive Summary of a Technical Review report for the complex prepared in February 2005 by Rider Hunt Terotech. It recommends expenditure of \$15.4 million over the next six years should the Victorian Police vacate on lease expiry in 2010 or \$6 million if the lease is renewed. The RE appears to have made allowance for reasonable expenditure in its financial forecasts, relating to these recommendations.
- Capital expenditure allowances include \$1 million over the next four years for replacement of the carpet, agreed in a variation to the lease in 2005.
- PIR has reviewed a copy of a valuation for 637 Flinders Street prepared by m3property and dated 8 August 2005. An IRR of 8.75% was calculated over a ten-year cash flow, with assumptions including 50% probability of tenant renewal in 2010, 12 months letting-up period, Rider Hunt Terotech's "Police Vacate" capital expenditure allowances and a terminal yield of 8.00%.

3. 369 Ann Street, Brisbane, QLD					
% of Portfolio		19%	Completion Date		1988
Ownership		100%	Purchase Price		\$24,250,000
Title		Freehold	Vacancy		nil
Type		Office	Gross Lettable Area		6,646 m ²
Location		Brisbane CBD	Total Site Area		1,813 m ²
Major Tenants		Lease Terms		% Area	% Rental
Sinclair Knight Merz Pty Ltd		10 years, expiring 30 Sept 2008 (2 x 5 year options)		37%	32%
Sinclair Knight Merz Pty Ltd		7 years & 3 months, expiring 30 Sept 2008		14%	13%
Valuation Date	\$ Value	Valuer		Initial yield	Cap rate
14 July 2005	\$24,250,000	Jones Lang LaSalle		7.34%	7.75%
					\$/m²
					\$3,649/m ²

Table ix

- An attractive nine-storey office building located on the corner of Ann and Wharf Streets in the uptown precinct of the Brisbane CBD. Approximately 500 metres from the GPO, 200 metres from Central railway station and 200 metres from the premium Eagle Street precinct. Adjoins St Johns Cathedral and opposite Cathedral Square Park.
- Includes 71 car spaces over two levels, reflecting a high parking ratio of one space per 94 m² of NLA. Has pedestrian tunnel access to Cathedral Square public car parking station with 700 car spaces. Services include 100% standby power provided by a rooftop generator, with fuel supplied by a 15,000-litre underground storage tank.
- Fully occupied, with global professional services firm, SKM, accounting for 80% of the area and two-thirds of the net income, from five separate leases. Two floors occupied by a variety of smaller tenants, with several lease expiries in 2007.

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- Approximately 29% of current net income subject to lease expiries over the next three years and 71% in September 2008. Likelihood of lease renewals considered good in current market, with SKM reported to be interested in occupying any space that becomes vacant.
- Rental reviews annually in line with the CPI or fixed increases of 3% to 4%.
- Some possibility of extending NLA of the building at ground level, perhaps introducing a café – the design features an underutilised 750 m² plaza area adjoining St Johns Cathedral.
- SKM reported to have undertaken significant internal refurbishment to its tenancy area recently, but GN Constructions Pty Ltd's Property Review dated July 2005 indicates there has been no major fabric refurbishment since completion in 1988. The report recommends \$830,500 in expenditure over the next five years. The RE appears to have made appropriate allowances for capital expenditure in its financial forecasts.

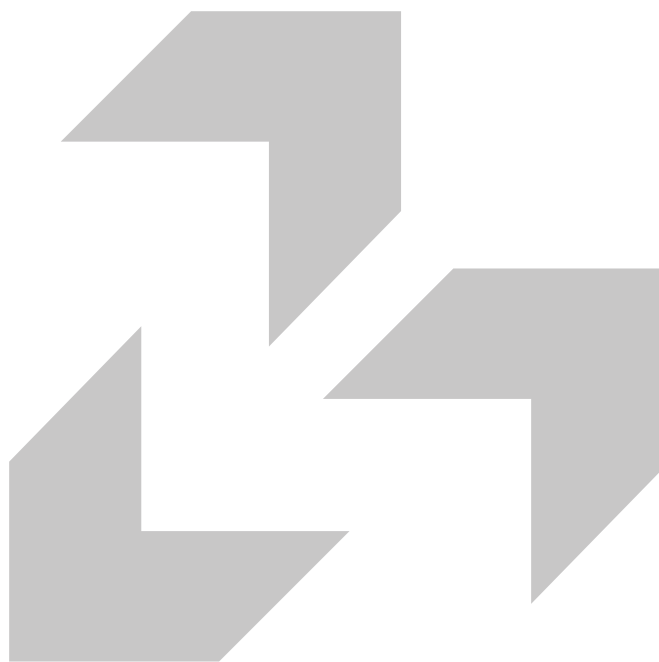
Due Diligence

Property Investment Research Pty Ltd (PIR) advises that in the compilation of this report, we have not conducted a full due diligence on this offer. Investors would be well advised to consult the offer document, conduct their own inquiries, and receive professional advice. This report was not prepared to form any part of any offer document.

PIR has relied upon information contained in the Product Disclosure Statement dated 28 September 2005. PIR has carried out its own independent inquiries. PIR has inspected the properties and held discussions with representatives of the Responsible Entity. There were no issues apparent from physical inspections of the properties, or from discussions with the Responsible Entity, that would have a detrimental impact on an investment in the Commercial Office Fund, other than those identified in the offer document, other materials received or mentioned in PIR's report.

PIR has received copies of the valuations, tenancy schedules, building due diligence reports, as well as the PDS and the RE's electronic financial analysis. PIR has received copies of the Constitution and the Compliance Plan which have been registered by the Australian Securities and Investment Commission (ASIC).

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Explanation of Investment Rating

The Investment Rating Financial Model (patent pending) provides a single measure of the overall investment merit of this vehicle for various investor profiles. It incorporates the level of expected returns (IRRs) from the investment and adjusts these for both illiquidity and risk associated with this investment, presenting them across the three main marginal tax rates. The Investment Rating is based on the premium of the estimated risk-free, after-tax IRR adjusted for illiquidity over the prevailing 10-year bond rate. This measure enables the valid comparison of an investment with any other for nine (tax rate and risk tolerance) investor profiles. This facilitates the task of tailoring investment selection to the needs of the individual investor. Further, it provides ratings in which the advisers and investors can have unprecedented confidence. The ratings presented in the risk tolerance/tax rate matrix are only a representative sample of those available on PIR's unique individually tailored on-line investment selection system.

Visit www.pir.com.au or phone (03) 9670 7767 for assistance.

Except when investor gearing is involved, a lower marginal investor tax rate would normally attract a higher rating because investors on higher tax rates (nearly) always pay more tax. An investment which rates AA- for a 48.5% tax rate investor may be relatively better for that investor profile than for a 15% taxpayer for which the rating is AA+. A high rating for a higher marginal investor tax rate is generally less common than the same rating for a lower marginal investor tax rate.

Comparison across investor tax rates is not meaningful, nor is comparison across investor risk tolerances.

For ease of comprehension, the Investment Rating uses symbols similar to those applied by credit rating agencies. These ratings should not, however, be confused or compared with those used by credit rating agencies. The seven published Investment Ratings from lowest to highest are: A- A A+ AA- AA AA+ AAA. Projects with ratings below A- are not considered investment grade and reports on such projects are not published by PIR.

Investors should visit pir.com.au to view and download a detailed explanation of the PIR Investment Rating System or phone (03) 9670 7767 for a complimentary copy.

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Richard Cruickshank, Managing Director.

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